

DDC-T

MEMORANDUM FOR ALL DDC DEPOTS

SUBJECT: DSS Random Statistical Sample Inventory Policy Guidance, 4th Quarter FY99

The DSS random statistical sample inventory to measure record accuracy is scheduled to be released September 25th, 1999 as TPIC N° DDDE, DDPH and DDYJ are exempt from this inventory. The stratification for the sample inventory remains unchanged and is outlined in Attachment 2. The categories for classified, sensitive and pilferable items are excluded from the sampling plan stratification (but not from the sample population). Results from the annual wall-to-wall inventories for classified, sensitive, and pilferable items are reported separately.

The DoD IG has informally reported that procedures for conducting the sample inventory are not disseminated to the individuals performing the physical counts. We cannot overly emphasize the importance this inventory has on performance statistics, A76 and the financial records. We understand your desire for efficiency and meeting goals; however, record accuracy is the sole purpose of these inventories. Procedures (Attachment 1) must be followed to the letter and any evidence to the contrary must be reported. These procedures include specific steps for completing the sample inventories.

DORRA is in the process of establishing the sampling inventory profile for release to the Megacenters on September 22nd. Projected sample sizes by depot are listed below.

DDAA:	549	DDJF:	495
DDAG:	685	DDNV:	712
DDBC:	417	DDOO:	550
DDCN:	389	DDPW:	441
DDCO:	711	DDRT:	511
DDCT:	693	DDRV:	867
DDDC:	611	DDSP (Mech):	660
DDHU:	529	DDSP (New Cumb):	498
DDJC (Sharpe):	586	DDTP:	532
DDJC (Tracy):	702	DDWG:	445

GAO report number AIMD-99-132, dated June 1999, stated that the Depot's Accountable records were unreliable based on their observations of how sample inventories were being conducted at several sites. Physical counts are mandatory; it's an essential component of a valid sample inventory. Accepting Paper Counts," using the on-hand balance as recorded on the QBL, is not an acceptable practice. To ensure conformity in conducting the sample inventory, procedures have been established and are provided as Attachment 1.

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Attachments

DDC Procedures for the
4th Quarter FY99
Random Statistical Sample Inventory

1. Every effort will be made to complete the TPIC "N" inventories in the allotted 30 calendar days. After 30 days, uncompleted inventories will remain in the workload bank to be released or cancelled as other workload permits. TPIC "N" inventories completed after 30 days will not be included in the accuracy computation. DDC-TO will provide a listing from DORRA of the items selected for the sample inventory. This listing is to be used to monitor the sample inventory to insure all items selected for the sample inventory have been completed.
2. All inventories will be completed by **physically counting the material**. A Paper count, recording the on-hand balance from the QBL, is not an acceptable practice. Supervisors should be responsible to enforce this policy. This is a very important issue, one the DoD IG and GAO auditors mentioned was not being followed at several depots for two separate sample inventory audits.
3. In order to ensure proper in-float consideration prior to the posting of a potentially incorrect adjustment, Depots will ensure the auto adjust tables in DSS, program PE4U and Parameter File 118 are reset prior to commencing the sample inventories. The PE4U should be set to zero, and Parm file 118 should be set to \$1 lower limit and 1% variance.
4. With the exception of TPIC "E" & "T" inventories, which take priority over the TPIC "N", all other inventory workloads will be rescheduled to release after the sample inventory has been completed. This may require the inventory workload bank to be monitored daily and adjustments made to the cut off dates.
5. The only types of research to be completed before the acceptance of a count and therefore the processing of an inventory adjustment (gain or loss) are post-count and pre-adjustment research.
 - The post count validation is a comparison of the physical count with the recorded balance or a recount. The purpose is to ensure count accuracy. The research process should consider transactions that have occurred recently that may or may not be reflected in the physical count.
 - Pre-adjustment research is a review of the potential inventory adjustments due to differences between the count and the recorded balance. The purpose is to determine what the actual on-hand balance is and what, if any, inventory adjustment may be processed. As with post-count validation, in-float transactions and catalog data are the primary focus of the research.

6. Previous adjustments to the inventory will not be reversed in an attempt to avert a new adjustment with the current TPIC "N" inventory. Causative research will be performed only after the correct balance is determined and an inventory adjustment has been posted bringing the physical and recorded quantities into agreement. For their own benefit, Depots should prepare a causative research summary report for adjustments processed during the sample inventory. This is an important tool in controlling inventory adjustments and increasing inventory accuracy. At a minimum, the report should include the following:
 - a. Adjustments by Error Classification Codes (ECC)
 - b. Adjustments by Warehouse / Area
7. The depot may not cancel TPIC "N" inventories. Some TPIC "N" inventory cancellations may occur regardless, because catalog data changes in DSS will automatically cancel the inventory. DDC-TO will monitor all TPIC "N" inventory cancellations to distinguish between the system generated cancellations from those cancelled by the Depot. You will be required to provide an explanation when the operator cancels an inventory.
8. When possible, inventory recounts (2nd and 3rd counts) should not be performed by the same individual who previously counted the material. We realize resources may not always allow adherence to this practice.
9. After the sample inventory has been released, a listing of all the items selected for the sample inventory will be provided. This listing is to be used to monitor the sample inventory to ensure all inventories have been completed for the entire sample. Items not completed will be reported to this office at the completion of the sample inventory with an explanation of why the inventory was not completed.

Sample Inventory Stratification

The Stratification for the Random Statistical Sample Inventory takes a hierarchical or cascading approach. Category A includes all items meeting that criterion. However, each subsequent category will not include all items meeting the specific category's criteria. Each subsequent category includes only those items meeting those specific criteria less those items meeting any preceding criteria. As an example, items that meet the criterion for category "A" will not be included in

Categories:

- A. Unit Price \geq \$1,000:** The stratification sample looks at all items whose unit price is greater than or equal to \$1,000 each and picks a representative sample to inventory. The goal is to have 95% of the items physically inventoried accurate (Inventory matched QBL) with no adjustment to the inventory necessary. A Zero tolerance means the physical inventory must exactly match the QBL.
- B. This category is broken into three parts. The goal is to have 90% (DLA goal 95%) of the items physically inventoried accurate (Inventory matched QBL) with no adjustment to the inventory necessary. However, a 10% tolerance means the physical inventory can be within 10% of the QBL and still be considered accurate.**
- **Unit of Issue \neq Each:** The stratification sample looks at the unit of issue for all items whose unit of issue is not equal to each or representative of each such as Coil (CL), Drum (DR), Package (PG) etc. This category was intended for the difficult to measure items such as Foot (FT), Gallon (GL), Pound (LB), Yard (YD), etc. The stratification picks a representative sample to inventory of these items.

or

- **ON Hand Balance is > 50 & Ext Val $< \$50K$:** The stratification sample looks at the on-hand balance for all items whose balance is greater than 50 and whose extended value (quantity times unit price) is less than \$50,000. The stratification picks a representative sample to inventory of these items. This category was intended for the low dollar value items with a high on hand balance.

or

- **NSN Transactions > 50 per year:** The stratification sample looks at the number of items that had more than 50 transactions a year. For this purpose a transaction is the number of receipts or issues only. The stratification picks a representative sample to inventory of these items. This category was intended for items with high activity.

- C. DOLI > 24 Mos & OH Bal < 50:** The stratification sample looks at the number of items that have not been inventoried on over 2 years and the on-hand balance is less than 50. This category was intended for low quantity/slow moving items. The stratification picks a representative sample to inventory of these items. The goal is to have 93% (DLA goal 95%) of the items physically inventoried accurate (Inventory matched QBL) with no adjustment to the inventory necessary. However, a 5% tolerance means the physical inventory can be within 5% of the QBL and still be considered accurate.
- D. Other:** This stratification looks at everything not included in any of the above categories and picks a representative sample to inventory. The goal is to have 95% of the items physically inventoried accurate (Inventory matched QBL) with no adjustment to the inventory necessary. A Zero tolerance means the physical inventory must exactly match the QBL.